

# Interim management report

**Cadent Finance Plc**

**Report for the six months ended 30 September 2017**

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## **Operations**

The Company is a wholly owned subsidiary of Cadent Gas Limited and operates as part of the Cadent Gas Group's regulated gas distribution business.

The principle activity of the Company is the provision of long term finance for its immediate parent, Cadent Gas Limited. The directors are not aware at the date of this report, of any likely major changes in the company's activities or prospects in the next year.

In the first half of the year, the Company delivered performance in line with management expectations. For the full year, the Company is on track to make a small operating loss.

## **Long-term strategy and business objectives**

In our most recent annual report and financial statements, we reported the Company's objective to continue to provide long term finance for its immediate parent.

## **Funding arrangements**

After another period of significant investment in new assets, the Company's balance sheet remains robust, and we have maintained our investment grade credit ratings from Moody's, Standard & Poor's and Fitch ratings.

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### Results for the six months ended 30 September 2017

A summary of the key financial results is set out in the table below.

	Six months ended 30 September 2017 £'000	Six months ended 30 September 2016 £'000	Period ended 31 March 2017 £'000
(Loss) / profit before tax	(30)	-	(30)
(Loss) / profit after tax	(24)	-	(24)

### Interest receivable

Interest received during the period from Cadent Gas Limited, the immediate parent company of Cadent Finance Plc, was £53,645,000 arising from the intercompany loans in place.

### Interest Payable

Interest payable during the period was £53,645,000 due on external borrowings.

### Loss for the period

The £30,000 loss for the period related to audit fees.

### Financial position

The financial position of the Company is presented in the Statement of Financial Position. Total shareholders' funds at 30 September were £2,000 (31 March 2017: £26,000). During the half year, no additional loans were drawn down.

### Related party transactions

There have been no material changes in the related party transactions described in the last annual report.

### Key performance indicators

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of Cadent Gas Limited.

Key performance indicators in relation to debt finance across Cadent Gas Limited and Cadent Finance Plc include its overall ratio of net debt to its regulated asset value (RAV), which is set by the industry regulator (Ofgem). The Company is incentivised to raise debt more efficiently by keeping the interest costs on the debt below the external benchmark interest set by the regulator thereby seeking to outperform the regulatory interest cost allowance.

For information on the development, performance, risks, uncertainties and position of Cadent Gas Limited and its subsidiaries and of the key performance indicators used, refer to the Strategic Report included in Cadent Gas Limited's Annual Report and Accounts 2016/17, which does not form part of this report.

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#### **Risks and uncertainties**

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 March 2017. A detailed explanation of the risks and how the Company seeks to mitigate the risks, can be found on pages 3 to 4 of the annual report and financial statements. Below is a summary of our key risks as at 30 September 2017:

- Liquidity risk
- Credit risk
- Interest rate cash flow risk
- Inflation rate cash flow risk
- Foreign exchange risk

#### **Going concern**

As stated in note 1 to the financial statements, the Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### **Auditors**

Following the completion of the audited Annual report and Financial statements for the period to 31 March 2017, our auditors, PricewaterhouseCoopers, resigned as auditors for Cadent Gas Limited Group and its subsidiaries including Cadent Finance Plc.

A competitive tender process was held and Deloitte LLP were successful and appointed as auditors of the Quadgas HoldCo Limited Group and its subsidiaries including Cadent Finance Plc.

#### **Cautionary statement**

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose.

The IMR contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

By order of the Board,

Chris Train  
Chief Executive Officer  
22 November 2017

Ashbrook Court, Prologis Business Park, Central Boulevard, Coventry, CV7 8PE

## **Cadent Finance Plc Interim management report**

### **Responsibility statement**

The half year financial information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority.

The Directors confirm that the financial information has been prepared in accordance with FRS 104 Interim Financial Reporting as issued by the Financial Reporting Council, and that the half year report herein includes a fair review of the information required by DTR 4.2.7.

The Directors of Cadent Finance Plc are as listed in the Cadent Finance Plc Annual Report and Financial Statements for the period ended 31 March 2017.

By order of the Board,  
Chief Executive Officer  
Chris Train  
22 November 2017

## **Cadent Finance Plc**

### **Interim management report**

#### **Independent review report to Cadent Finance Plc**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the income statement, the balance sheet, the statement of changes in equity and related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

#### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”). The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with Financial Reporting Standard 104 “Interim Financial Reporting”.

#### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

#### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with Financial Reporting Standard 104 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

#### **Deloitte LLP**

Statutory Auditor

22 November 2017, London, United Kingdom

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**Income statement**  
**Six months ended 30 September 2017**

		<b>30 September 2017 (unaudited)</b>	30 September 2016 (unaudited)
	Notes	<b>£'000</b>	£'000
Interest receivable and similar income	4	<b>53,645</b>	2,124
Interest payable and similar charges	5	<b>(53,645)</b>	(2,124)
Other		<b>(30)</b>	-
<b>(Loss)/profit on ordinary activities before tax</b>		<b>(30)</b>	-
Tax on (loss)/profit on ordinary activities	6	<b>6</b>	-
<b>(Loss)/profit for the financial year</b>		<b>(24)</b>	-

The results reported above relate to continuing activities. There were no other gains and losses for the year other than those reported above.

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**Statement of financial position**  
**Six months ended 30 September 2017**

	30 September 2017	31 March 2017
Notes	£'000	£'000
<b>Current assets</b>		
Debtors: amounts falling due after more than one year	4,304,230	4,273,528
Debtors: amounts falling due within one year	3,677	38,146
Derivative financial instruments: amounts falling due within one year	177	1,779
Derivative financial instruments: amounts falling due after more than one year	7 12,621	10,682
	<b>4,320,705</b>	<b>4,324,135</b>
<b>Creditors: amounts falling due within one year</b>	<b>(16,473)</b>	<b>(39,899)</b>
	<b>4,304,232</b>	<b>4,284,236</b>
<b>Creditors: amounts falling due after more than one year</b>		
Borrowings	<b>(4,304,230)</b>	<b>(4,284,210)</b>
	<b>2</b>	<b>26</b>
<b>Net assets</b>		
<b>Equity</b>		
Share capital	50	50
Cash flow hedge reserve	-	-
Profit and loss account	<b>(48)</b>	<b>(24)</b>
<b>Total shareholders' funds</b>	<b>2</b>	<b>26</b>

The financial statements on pages 6 to 11 were approved for issue by the Board of Directors on 22 November 2017 and were signed on its behalf by:

C Train  
 Director  
 Cadent Finance Plc  
 Company registration number: 05895068

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**Statement of changes in equity**  
**Six months ended 30 September 2017**

Equity attributable to owners of the company

	Share Capital £'000	Share Premium Account £'000	Cashflow hedge reserve £'000	Other reserves £'000	Retained Earnings £'000	Total £'000
<b>Balance at 1 April 2017</b>	50	-	-	-	(24)	26
Profit for the period	-	-	-	-	(24)	(24)
Other comprehensive income for the period	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	(24)	(24)
Dividends	-	-	-	-	-	-
<b>Balance at 30 September 2017 (Unaudited)</b>	50	-	-	-	(48)	2

Equity attributable to owners of the company

	Share Capital £'000	Share Premium Account £'000	Cashflow hedge reserve £'000	Other reserves £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 2016	50	-	-	-	-	50
Profit for the period	-	-	-	-	-	-
Other comprehensive income for the period	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-
Balance at 30 September 2016 (Unaudited)	50	-	-	-	-	50

**Notes to the financial statements**  
**Six months ended 30 September 2017**

**1. Basis of preparation and new accounting standards, interpretation and amendments**

The half year financial information covers the six month period ended 30 September 2017 and has been prepared under Financial Reporting Standards (FRS) as issued by the Financial Reporting Council (FRC), in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The half year financial information is unaudited but has been reviewed by the auditors and their report is attached to this document. The half year financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. It should be read in conjunction with the statutory accounts for the year ended 31 March 2017, which were prepared in accordance with applicable UK accounting and financial reporting standards (FRS101) and the Companies' Act 2006, and have been filed with the Registrar of Companies. The auditors' report on these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

There are no new standards, interpretations and amendments, issued by the FRC in the period, that have had a material impact on the Company's results. The half year financial information has been prepared in accordance with the accounting policies expected to be applicable for the year ending 31 March 2018 and consistent with those applied in the preparation of the accounts for the year ended 31 March 2017.

Having made enquiries and reassessed the principal risks, the Directors consider that the Company has adequate resources to continue in business, and that it is therefore appropriate to adopt the going concern basis in preparing the half year financial information.

In preparing this half year financial information, the areas of judgement made by management in applying the Cadent Finance Plc's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2017.

**2. Segmental analysis**

The Directors believe that the Company's activities constitute one single segment. Operating segments are reported in the manner consistent with internal reporting to the Chief Operating Decision Maker, which has been identified as the Board of Directors.

The Group's country of domicile is the United Kingdom and is the country in which it generates all of its revenue. The Group's assets are all located within the United Kingdom.

**3. Seasonality**

The Company is not impacted by seasonality due to the nature of the Company's activities.

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**Notes to the financial statements (continued)**  
**Six months ended 30 September 2017**

**4. Finance income and costs**

	<b>Six months ended 30 September 2017 £'000</b>	<b>Six months ended 30 September 2016 £'000</b>
<b>Finance income</b>		
Interest income from immediate parent company	<b>52,305</b>	1,576
Net gains on intercompany derivative financial instruments and foreign currency denominated loans not designated in a hedge relationship	<b>1,340</b>	548
Finance income	<b>53,645</b>	2,124
<b>Finance costs</b>		
Interest payable on other borrowings	<b>(52,305)</b>	(1,576)
Net losses on derivative financial instruments and foreign currency denominated loans not designated in a hedge relationship	<b>(1,340)</b>	(548)
Finance costs	<b>(53,645)</b>	(2,124)

**5. Tax**

The tax credit for the period from continuing operations is £6,000 (Six months to September 2017: £nil). The effective tax rate of 19% for the period is calculated by applying the main rate of UK corporation tax to the loss before tax.

The Finance Act 2015 (No.2) was enacted on 18 November 2015. The Act reduced the main rate of UK corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020. The Finance Act 2016 received Royal Assent on 15 September 2016. The Act further reduced the corporate tax rate to 17% from 1 April 2020, from the previously enacted 18%. Deferred tax balances forecast to reverse in the period to 31 March 2020 have been provided for at 19%.

Draft legislation to potentially restrict interest deductibility for the accounting periods starting after 31 March 2017 has been published. It is not anticipated that there will be any interest restriction in the group for the foreseeable future. The Company is not impacted by seasonality due to the nature of the Company's activities.

**6. Dividends**

No dividends are proposed for the current financial period.

**Notes to the financial statements (continued)**  
**Six months ended 30 September 2017**

**7. Fair value measurement**

Certain of the Company's financial instruments are measured at fair value. The following table categorises these financial assets and liabilities by the valuation methodology applied in determining their fair value using the fair value hierarchy described below.

	30 September 2017				31 March 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at</b>								
<b>31 March 2017</b>								
<b>Assets</b>								
<b>Derivative financial instruments</b>	-	12,798	-	12,798	-	8,904	-	8,904
<b>Liabilities</b>								
<b>Derivative financial instruments</b>	-	(12,798)	-	(12,798)	-	(8,904)	-	(8,904)
<b>Total</b>	-	-	-	-	-	-	-	-

Financial assets and liabilities in the consolidated statement of financial position are either held at fair value or the carrying value if it approximates to fair value, with the exception of borrowings, which are held at amortised cost.

The estimated fair value of total borrowings using market values at 30 September 2017 is £4,272,000,000 (31 March 2017: £4,305,028,000).

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

**8. Commitments and Contingencies**

At 30 September 2017 there were no commitments for future capital expenditure contracted but not provided for (31 March 2017: £nil).

**9. Related party transactions**

Related party transactions in the six months ended 30 September 2017 were the same in nature to those disclosed on page 21 of the Annual Report and Financial Statements 2016/17. There were no related party transactions in the period that have materially affected the financial position or performance of the Group.